Businessworld

CORPORATE

A Design To Quit?

Was the Maytas bid a step towards exiting Satyam?

DHANYA KRISHNAKUMAR & VENKATESH G
19 Dec 2008

"Unethical", "Hedonistic", "Riotous" are just some of the terms being used to describe the scandalous proposal by Hyderabad-based Satyam Computer Services to buy companies owned by the promoter Raju family — Maytas Properties and Maytas Infrastructure — for $1.60 billion. The acquisition would have exhausted Satyam's $1.2-billion cash pile and plunged it into debt to the tune of $400 million to bail out the promoter family and the debt-ridden Maytas companies badly hurt by the realty meltdown.


RED-FACED: Ramalinga Raju's plan to acquire debt-ridden Maytas has backfired
(Pic by Sanjya Sakaria)

An unprecedented shareholders' revolt — that crashed Satyam's American depositary receipts by 55 per cent on 16 December on New York Stock Exchange and plunged the stock 27 per cent to Rs 165.50 in mid-session the next day on the Bombay Stock Exchange — forced the Rajus to beat a hasty retreat. Satyam has already been slapped with suits for forgery, fraud and breach of contract such as the one by UK-based mobile payments specialist Upaid. But amidst several questions of ethics and corporate governance lies an exclamation about the longterm intent of Rajus to stay in the information technology business. "This will bring lots of doubts in customers' minds about the management's motives and commitment to the IT business," says Pari Natarajan, CEO of IT consulting firm Zinnov.

Over the years, the Rajus have halved their stake in flagship Satyam Computers from a high of 17.35 per cent in 2004 to 8.50 per cent. Top executives, including Director Vinod Dham and CFO S. Vadlamani, sold Satyam shares in bulk just two months ago. For two years now, Rajus are believed to have engaged potential buyers, including IBM, going as far as a due diligence. It is conjectured that had it not been for disagreements over the price, Satyam may have had a new promoter by now.

Persistent rumours forced Satyam Chairman and Founder B. Ramalinga Raju to issue a statement in early 2007: "There were rumours that Satyam was in dialogue with a large global SI (systems integrator) for being acquired. We had denied having considered such an option directly or indirectly ever in the past. Subsequently, there was speculation on the part of some analysts about shareholder value on account of acquisition of the company. We would like to take this opportunity to put to rest any such speculation."

But the Maytas — which is S-a-t-y-a-m spelled backwards — proposal has given rise to fresh speculation that the promoters have already decided to cash out of Satyam. The Rajus' attempt to transfer funds to themselves by draining out the publicly listed Satyam Computer Services through the Maytas companies — the Rajus and their associates own 35 per cent of Maytas Properties and 36 per cent of Maytas Infrastructure — is being seen as a step towards an eventual exit. “An eventual sellout of the promoters cannot be ruled out,” says Khozema Anajwalla, partner of accounting, tax and audit firm Inde Global.

Raju's elder son Teja Raju is the vice-chairman of Maytas Infra while the younger son Rama B. Raju Jr is the vice-chairman of Maytas Properties. “This was not merely buying of some stakes; it is clearly about not adhering to corporate governance standards since this could wipe out cash from Satyam's balance sheet in favour of the promoters.” Agrees Gaurav Dua, head of research, Sharekhan: “There is no clarity on the financial of Maytas Properties and its subsidiary companies. Nor did the promoters clarify the basis of its valuations.”

Ramalinga Raju termed the Maytas acquisition proposal a ‘diversification strategy’. “The two acquisitions pave the way for accelerated growth in additional geographies and market segments. This would de-risk the core business,” he said in an official statement announcing the proposal.

But few bought that argument and the general perception that a sell-out is on the cards stays firm. “Common sense would say that they will wait a while before wanting to go for a stake sale,” says Nishant Verma, vice-president of Tholons Capital, a Bangalore-based investments and M&A advisory firm.

DEMYSTIFYING MAYTAS

There is a lot of speculation over how the Rajus had overleveraged themselves against their stock in the two Maytas companies. The acquisition move is believed to have been triggered by the creditors' call for repayment of the debt so that the promoters could raise the cash to pay off these debts and release their shareholding. But consider what Satyam may have been saddled with if the deal had gone through. Maytas Infrastructure for which Satyam was to pay $300 million, is a 23-year-old company engaged in infrastructure development encompassing core areas of India's economic growth such as airports, railways, ports, highways, transport management systems, power, oil & gas, irrigation, water treatment, etc. As of March 2008, the company — which had a turnover of just Rs 1,637 crore turnover and net profit of Rs 99.64 crore for 2007-08 — carried a debt of Rs 935.70 crore. This would have been part of Satyam's balance sheet by the end of this fiscal, over and above the $400 million additional debt Satyam would have had to take on to pay the Rajus.

Satyam has yet to declare the debt on the balance sheet of the other company, the 100 per cent owned Maytas Properties, which is into development of urban space infrastructure such as master planned integrated townships, special economic zones; hospitality; retail and entertainment spaces meeting the enormous and rapidly growing need for high quality spaces in tier-1 and tier-2 cities.

Clearly, this was a narrow escape for Satyam shareholders.

Fallout Blues

After investors received the bolt from the blue in the wee hours of 16 December, their confidence in Satyam dipped to a new low. “I am not very sure if the Satyam market cap will ever bounce back as the investors might not have the same level of confidence in the management team," says Zinnov's Natarajan. The Rajus are in a damage-control mode. Ramalinga Raju and Satyam did not respond to a questionnaire sent by BW. But while announcing the withdrawal of the Maytas proposal, Raju said, "We have been surprised by the market reaction to this decision even though we were quite positive about the merits of the acquisition. However, in deference to the views expressed by many investors, we have decided to call off these acquisitions."

But, despite proposing a share buyback, the Raju family has surely not heard the end of the matter yet. While the ministry of corporate affairs is investigating the issue, minority investors have indicated they will get together to sue the company and its promoters for causing loss of value of their shareholding, breach of trust and mismanagement.

"A breach of trust has occurred with significant consequences still to follow," says Peter Schumacher, CEO of Value Consulting [Correction: Should read – Value Leadership Group], an outsourcing advisory firm. This comes as quite a shocker, especially after Satyam won the Golden Peacock Global Award for Excellence in Corporate Governance for the second time in 2008 after bagging it in 2002. Also, Investor Relations Global Rankings (IRGR) rated Satyam as the company with best corporate governance practices for 2006 and 2007.

But large investors such as Fidelity Management and Research Co., Aberdeen Asset Managers, ICICI Pru Life and Birla Sun Life are still smarting. Some have hinted they are not averse to selling their stake if somebody mounts a hostile takeover for the company. Institutional investors own a whopping 62 per cent in Satyam (foreign institutional investors 47 per cent; domestic institutions 15 per cent). The company — listed in the US as well as in India — has about 10.41 per cent public holding. "We plan to meet the management and might consider legal action and will initiate damage control for our investors," says a senior official from a private insurance company who holds in excess of Rs 50 crore in the stock and does not wish to be named.

Besides grappling with the Maytas fallout, the Rajus will have to contend with queries from clients during contract renegotiations and vendor-selection processes. The most difficult question to answer will be whether they would continue to own and run the company. Not to mention dispelling the doubts of the 53,000 employees of Satyam, who are bound to feel insecure following the development.

dhanya dot krishnakumar at abp dot in

(Businessworld Issue 23-29 Dec 2008)